

PHILIPPINES

2024

January

Components: Revenue and Spending

Modules: RM I – Tax Policy

RM II – Revenue Administration

*PHILIPPINES***PROJECT SUMMARY**

COUNTRY (S): Philippines

LEAD DEPARTMENT: Fiscal Affairs Department

REGION (S): Asia

PROGRAM ID: (To be filled out by Secretariat)

PLANNED DATES: February 2024 – April 2026

FUNDING PROGRAM TITLE: GPFP Philippines

PROJECT MANAGERS: Artur Swistak, Supriyo De

RM I/TAX POLICY: Artur Swistak – FADT2

RM II/REVENUE ADMIN: Supriyo De – FADR1

PROJECT LEAD MANAGER: Artur Swistak – FADT2

ESTIMATED BUDGET: \$876,145

BUDGET FOR ENDORSEMENT: \$716,421 (through FY25)

Contents

Project Summary	2
I. Project Purpose	4
II. Background	5
III. Project Level Description	6
A. Project Scope	6
Table 1. Summary of Objectives Covered by the Proposal	7
B. Country Engagement	7
C. Delivery Modalities	7
D. Coordination / Cooperation	8
IV. Risk Assessment and Mitigation	8
V. CD Delivery Plan	9
Table 2. Summary of Indicative CD Delivery	9
Table 3. First Year Workplan	10
VI. Program Financials	10
ANNEX I. REVENUE MODULE I – TAX POLICY	12
A. Program Objectives	12
B. Expected Results (outcomes)	12
C. Targeted Logical Framework – TAX POLICY	12
ANNEX II. REVENUE MODULE II - REVENUE ADMINISTRATION	13
A. Program Objectives	13
B. Expected Results (outcomes)	13
C. Targeted Logical Framework Revenue Administration	13

PHILIPPINES

I. PROJECT PURPOSE

While the Philippines has improved its revenue collection in recent years, its tax-to-GDP ratio—at 14 percent of GDP in 2022—remains modest compared to the country’s level of development.¹

Building on past efforts, the authorities are committed to further improving revenue mobilization—both through tax policy and tax administration reforms. IMF staff assesses ample scope to raise additional tax revenue, but the authorities will require significant capacity development (CD) support to make progress in this regard. Revenue mobilization has been indicated as a new/emerging area in APD’s Regional Strategy Note on Capacity Development for FY25-27.²

Against this backdrop, the Philippines’ authorities have expressed interest in a new CD Project to continue FAD-supported reforms to mobilize revenue through tax policy and tax administration modernization. The authorities have sought support on a broad range of tax policy issues—from improving the VAT design to strengthening tax expenditure policy and reporting to further capacity building in revenue forecasting and analysis, including upgrading their revenue forecasting models. For tax administration, they have requested a TADAT assessment to gauge ongoing tax administration and digitization efforts.

The new CD Project will encompass two modules—tax policy and revenue administration. The 2023 CD scoping mission has informed the tax policy module design.³ The purpose of the Project is to 1) provide policy advice to improve the Philippines’ tax regime design, 2) build capacity in tax expenditure assessment and revenue forecasting, and 3) undertake a diagnostic of the tax administration system using the Tax Administration Diagnostic Assessment Tool (TADAT) to provide a baseline for anticipated further support on revenue administration reforms. The authorities expect CD activities on VAT diagnostic and TADAT assessment in early 2024.

The two-year project has been discussed with the authorities, and the medium-term objectives and outcomes were agreed upon. The estimated budget for this two-year project is \$876,145, but endorsement is requested for \$716,421 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

¹ See 2022 Selected Issues Paper on Revenue Mobilization in the Philippines ([IMF Country Report No. 22/370](#)) for an account of recent revenue reforms and guidance for reform.

² Asia and Pacific Department (APD) Regional Strategy Note on Capacity Development, FY2025–27. IMF, November 2023.

³ Artur Swistak, Sebastian Beer, Antoine Cazals and Frederic Tremblay. PHILIPPINES: Tax Revenue Forecasting and Analysis. Technical Assistance Report, IMF/FAD, August 2023.

II. BACKGROUND

Macro-fiscal situation

The Philippines' economy has emerged strongly from the pandemic but has since confronted a confluence of global shocks. Following a slowdown in the second quarter of 2023, economic growth is projected to bounce back to 5.3 percent in 2023 and 6 percent in 2024.

Fiscal consolidation, as envisaged under the Medium-Term Fiscal Framework, is on track. While it is appropriate to bring the national government debt-to-GDP ratio to less than 60 percent over the medium term, an even more ambitious revenue mobilization strategy could finance more social spending to achieve poverty reduction goals and to respond to natural disasters while keeping the deficit path unchanged. Strengthening revenue mobilization efforts to support medium-term fiscal consolidation is one of the AD's surveillance priorities.

IMF priority areas / cross-cutting themes

The Project will have contributions across several IMF priority areas. While focusing on strengthening revenue mobilization, it will help the country achieve other important goals, including digitalization, social and gender inclusion, and climate mitigation.

Country engagement and alignment to reform priorities

The Philippines is a surveillance country; no IMF-supported arrangement is currently in place. The AD country team, including the Resident Representative in Manila, regularly engages with the authorities to support an inclusive and robust recovery and ensure continued macroeconomic and financial stability. FAD has recently rekindled its engagement with the Philippines in tax policy area—in June 2023, a CD mission on tax revenue forecasting and analysis was delivered. It also assessed the authorities' revenue-related CD needs which appear to be significant. While the authorities receive TA from other development partners, they have requested extensive CD support from FAD.

The proposed Project is aligned to the objectives of the IMF Regional CD strategy for the Philippines. They aim at i) improving VAT design, ii) supporting tax expenditures review, iii) strengthening health taxes and environmental taxes, and iv) supporting climate change mitigation and carbon taxation. The Project is aligned to the Philippines' national development plan 2024-2028 strategic objectives aiming at accelerating climate actions, and ensuring sound fiscal management, and improving the tax regime. It also builds on the authorities' request expressed at the 2023 Annual Meetings for support on VAT diagnostic and tax expenditure assessment and earlier request for further support on improving tax revenue forecasting and analysis. On the tax administration front, the Project builds on demand expressed by the country authorities following the April 2023 Spring Meetings which is also echoed in the Draft Staff Report for the 2023 Article IV Consultation. The TADAT assessment will provide a baseline for prioritizing tax administration reforms needed to implement the aforementioned policy recommendations.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

This Project is focused on revenue mobilization through enhanced tax policy and modernization of tax administration. The revenue component will include the following modules:

- **Tax Policy (Module I)** will focus on improving tax policy design and strengthening the authorities' capacity in tax policy formulation and analysis; it will include the following CD activities: i) VAT diagnostic, ii) tax expenditures assessment, and iii) revenue forecasting and analysis,
- **Revenue Administration (Module II)** will focus on a TADAT assessment to diagnose strengths and weaknesses of tax systems in the Philippines; Post-TADAT dialogue on reform planning and prioritizing, including digitalization reforms to strengthen management and governance arrangements.

Module RM I / Tax Policy

Module I Tax Policy (FY2024-26): The Project will deliver a comprehensive diagnostic of the VAT. Given the low C-efficiency and productivity of the VAT (0.35 and 0.31, respectively, in 2020), widespread exemptions, delays in paying refunds, and further pressure from the business community for input-side tax exemptions, relatively lax anti-avoidance measures, the Philippines' VAT is ripe for a comprehensive review to modernize its structure and improve revenue efficiency. The Project will also support authorities in undertaking a tax expenditures assessment and rationalization. While the Corporate Recovery and Tax Incentives for Enterprises (CREATE) significantly reformed the scope of and the framework for granting investment tax incentives, the authorities recognize a need for further improvement of their design and governance. In this regard, they would like to build capacity in ex-ante cost-benefit analysis (an essential step in granting said incentives) and ex-post evaluation of the incentives, as well as undertake an assessment of the implication of the Global Minimum Tax on the current incentives framework in the Philippines' and need for reform. Further support, building on the 2023 CD mission, will be provided on tax revenue forecasting and analysis.

Module RM II / Revenue Administration

Module II Revenue Administration (FY2024): The objective of this Module is to "Strengthen Management and Governance Arrangements" by deploying TADAT with the outcome that "the Authorities have a baseline understanding of the current state of the government's revenue administration, management, and governance arrangements and core revenue administration operations." This module will update the findings from an earlier 2015 TADAT assessment. This second assessment will provide a health check of the current state of the Philippines tax administration system and provide a baseline understanding for prioritizing revenue administration reforms and developing a multi-year CD support program. Leveraging the strengths and weaknesses highlighted by the TADAT assessment will help the authorities confirm key reform priorities and develop a reform plan. Digitalization is expected to be a key tool for enhancing revenue administration performance in the Philippines and has been identified by the authorities as a key focal area for reform once the TADAT assessment results are available. Once reform priorities are agreed, a CD support program will also be discussed, which will likely lead to a supplementary CD funding proposal.

PHILIPPINES

Table 1. Summary of Objectives Covered by the Proposal

Component	Module	Objective
Revenue	RM I / Tax Policy	• Improve Tax Policy Design • Strengthen Policy Monitoring, Evaluation, and Institutions
	RM II / Revenue Administration	• Strengthened revenue administration management and governance arrangements (SDG 17.1)

B. Country Engagement

The Philippines has benefited from FAD CD on revenue forecasting in June 2023. The FAD Funding Program (IMF01) supported the delivery of a five-day workshop on revenue forecasting and analysis. This assessed the Philippines' revenue forecasting framework and practices, provided advice on how to improve them, discussed the authorities' medium-term tax policy agenda and immediate capacity development needs. The authorities were advised to strengthen the DOF's tax policy unit and further develop its revenue analysis function. Accordingly, the authorities made a request for further VAT diagnostic, tax expenditure assessment and further support on tax revenue forecasting. Requests for CD on tax investment incentives, strengthening the tax policy unit, and additional hands-on training on tax treaties and transfer pricing are expected later in the Project delivery. Other CD areas may emerge further down the road.

The TADAT assessment request is the first substantial engagement with Philippines on revenue administration in several years. Initial discussions with the DOF and the Bureau of Internal Revenue (BIR) staff have already been held for planning the TADAT mission. Early discussions indicate that several staff who were involved in the previous TADAT assessment (2015) will be involved in this repeat assessment; this will help streamline the assessment process. DOF and the BIR have confirmed that the results of the assessment will be used to help develop the revenue administration reform program and priorities. They are also keen on digitalization of revenue administration.

C. Delivery Modalities

The CD delivery will use blended delivery options, with diagnostics mainly be in-person due to time difference and the authorities' preference for hands-on approach. Virtual deliveries will be used to provide efficiency to on-the-ground support, including pre-engagement meetings, preparatory workshops, and follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions, staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, coordinate with other TA providers, and adjust reform implementation plans.
- **Virtual (online) training and workshops** to prepare CD recipients for diagnostic missions, organizational preparedness, data collection and information gathering.
- **Short-term expert (STX) visits** to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration.

D. Coordination / Cooperation

Project managers will seek collaboration with the other CD providers in the respective areas to ensure a regular exchange of information and discuss areas of support. The World Bank provides policy advice on carbon taxation, VAT, CIT, and PIT reforms, while the Asian Development Bank (ADB) intends to support the Philippines in estimating the revenue impact of the global minimum tax and strengthening the property tax system. While no formal development partner (DP) committee is in place, the IMF Resident Representative assists FAD by setting up meetings with donors during major CD deliveries in the country. The authorities will be advised on the need to coordinate the various CD providers and to seek a more formal arrangement to help improve cooperation among all active DPs.

FAD will lead the TADAT assessment process and include interested DPs in the assessment team. The standard TADAT assessment process set by the TADAT secretariat provides for interested DPs to join the TADAT assessment team and coordination with the ADB and the World Bank engaged in revenue administration work in the Philippines has already been initiated. Following the assessment, it is anticipated that discussions on potential follow-up CD will occur, allowing further opportunities for coordination and collaboration with interested DPs.

IV. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Probability	Impact	Mitigation Measures
External climate/conditions				
General	Risk that external events create a more challenging environment to implement reforms.	Low	Low;	Ensure sufficient flexibility in program execution across countries and allow for ability to adjust activities in the case of adverse events.
Political Support				
General	Lack of political support for reforms inhibits required actions or resources being allocated that are needed to enhancements to fiscal risk management institutions and practices.	Medium	Medium	Ensure fiscal risk CD is focused on priority areas and engage regularly with ministers and senior management to ensure government ownership of reforms. APD colleagues could enhance traction at higher political levels.
Management and Technical Staff Support and Commitment				
RM I / Tax Policy	Low commitment of management and staff in finance and other ministries to adopt and implement tax policy reform measures.	Low	Low	Engage with senior management and technical staff pro-actively and explain the importance of strengthening tax systems.
RM II / Revenue Administration	DOF push for the TADAT assessment may not be reflected in the commitment of BIR senior management.	Medium	Medium	Enhance virtual and in-person discussions with BIR management and staff to assuage concerns and address assessment questions. Strong preparatory workshops to ensure BIR readiness for the assessment

PHILIPPINES

General or Module	Description	Probability	Impact	Mitigation Measures
Resource Adequacy				
RM I / Tax Policy	Insufficient technical capacity and human resources necessary to implement reforms are limited.	Low	Low	Ensure CD plans include sufficient capacity building and training elements and prioritize CD to priority or highest risk areas where resources are limited.
RM II / Revenue Administration	Inadequate technical capacity, organizational structures, and human resources to effectively provide data and information for the TADAT assessment	Medium	Medium	Strong preparatory workshops to ensure BIR readiness for the assessment, especially data collection and the assessment process
Other risks				
RM I / Tax Policy	Multiple donors are providing technical assistance on tax expenditure assessment and VAT diagnostics and gaps, or overlaps may arise as a result.	Low	Low	Take an active role in engaging with other donors to ensure support is well coordinated.
RM II / Revenue Administration	Multiple development partners may be involved in the BIR's reform program leading to possible CD overlaps.	Low	Low	In keeping with the TADAT process, other interested development partners will be included in the TADAT team.

V. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY24	FY25	FY26	Grand Total
RM I / Tax Policy				
HQ-led CD mission	-	1	-	1
STX visits	-	-	1	2
Staff or other visit	-	1	1	2
Interactive Learning (in-person workshop)	-	1	1	2
RM II / Revenue Administration				
HQ-led CD mission (incl. LTX)	1	1	-	2
STX visits (incl. LTX)	-	1	-	1
LTX Regional Advisor Visits	-	1	-	-
Interactive Learning (virtual workshop)	1	-	-	1

PHILIPPINES

Table 3. First Year Workplan

Timing	CD Delivery	Proposed Topics of CD	
RM I / Tax Policy			
FY25 – Q1	STX visit (FB)	1 STX	Data collection and analysis for tax expenditure assessment
FY25 – Q3	HQ mission (FB)	1 Staff + 3 STX	Tax expenditures assessment and follow up on revenue forecasting and analysis
FY25 – Q3	Staff visit (FB)	1 Staff	Staff visit and stakeholder engagement
FY25 – Q4	Workshop	1 Staff +3 STX	Tax expenditure assessment and revenue forecasting
RM II / Revenue Administration			
FY24 – Q4	Scoping discussions (Duty Station (DS))	2 Staff	Pre-TADAT preparation
FY24 – Q4	Virtual Preparatory workshop (DS)	2 Staff	Pre-TADAT preparation
FY25 – Q1	In-person TADAT mission (FB)	2 Staff + 1 STX	TADAT assessment
FY25 – Q2	Virtual Post-TADAT Follow up (DS)	2 Staff	Post-TADAT Dialogue
FY25 – Q2	Post-TADAT follow up including Digitalization in person (FB)	2 Staff + 1 STX	Post-TADAT Reform Planning
FY25 – Q2	STX Visit on Digitalization (FB)	1 STX	Digitalization

VI. PROGRAM FINANCIALS

	FY24 Q4	FY25	FY26	TOTAL (USD)
Direct Delivery	225,512	444,041	149,275	818,827
Module RM I - Tax Policy	0	208,765	149,275	358,040
Module RM II - Revenue Administration	225,512	235,275	0	460,787
Module SM I - Spending Policy	0	0	0	0
Module SM II - Managing Public Finances	0	0	0	0
Subtotal	225,512	444,041	149,275	818,827
Trust fund management fee (7%)	15,786	31,083	10,449	57,318
TOTAL	241,298	475,123	159,724	876,145

The estimated budget for this two-year project is \$876,145, but endorsement is requested for \$716,421 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

ANNEX I. REVENUE MODULE I – TAX POLICY

A. Program Objectives

The objective of the Project is to help the authorities of Philippines improve their tax policies with a view to mobilize more tax revenue and increase the overall economic efficiency, and to strengthen their policy analysis and monitoring capacity to ensure that revenue mobilization policies are effectively implemented and do not deteriorate over time. In this regard FAD will provide support on enhancing tax expenditures policy (continued effort, building on 2023 CD engagement), and modernizing VAT design, with particular focus on taxation of e-commerce and improving VAT refund policies and practices.

B. Expected Results (outcomes)

This CD project aims to obtain the following results:

- Increased tax revenue quantity (tax revenue increases on account of new and/or revised policies and adoption of laws implementing them).
- Improved economic efficiency (economic distortions stemming from various taxes are reduced on account of improved tax design as implemented by new laws).
- Increased institutional capacity (authorities' ability to assess and monitor tax policies increases).

C. Targeted Logical Framework – TAX POLICY

Objective	
Improve Tax Policy Design	
Outcomes	Indicators
Increased/decreased revenue quantity	Revenue change
	Laws implementing amendments to raise revenues are passed
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	Adopt legislation that reduces economic distortions
Objective	
Strengthen Policy Monitoring, Evaluation, and Institutions	
Outcomes	Indicators
Improved transparency and outreach	Tax expenditures are published
Improved structures and capacity related to tax policy advice and analysis, including organization of tax policy units and building tax models or other tools for analysis and revenue forecasting	Improved models to evaluate tax policy adopted

ANNEX II. REVENUE MODULE II – REVENUE ADMINISTRATION

A. Program Objectives

The objective of the program is to strengthen revenue administration management and governance arrangements to improve tax administration, including through digitalization.

In particular, CD activities will focus on:

- Conducting a TADAT diagnostic so that authorities have a baseline understanding of the current state of the government's revenue administration, management, and governance arrangements and core revenue administration operations.
- Conducting a post-TADAT mission to decide on reform priorities to ensure that support functions enable more effective delivery of strategy and reforms including improved digitalization of systems and processes.

B. Expected Results (outcomes)

The implementation of this program is expected to yield the following outcomes: i) Authorities have a baseline understanding of the current state of the government's revenue administration, management, and governance arrangements and core revenue administration operations, and ii) Support functions, specifically IT, enable more effective delivery of strategy and reforms.

C. Targeted Logical Framework REVENUE ADMINISTRATION

Objective	
Strengthened revenue administration management and governance arrangements (SDG 17.1)	
Outcomes	Indicators
Authorities have a baseline understanding of the current state of the government's revenue administration, management, and governance arrangements and core revenue administration operations	Procedures for internal and/or external review of revenue administration management, governance, and operations are established to produce baselines and identify opportunities for improvement
Digital technologies are better aligned with strategic objectives	Improved ICT strategies and systems to support the tax administration